



The Comptroller General
of the United States

Washington, D.C. 20548

Shimamura

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Decision

Matter of: Hughes Aircraft Company
File: B-226955
Date: July 15, 1987

DIGEST

1. Where an authorized deviation from the Federal Acquisition Regulation requirement to evaluate royalty fees is applicable when "significant future competitive (re)procurement is anticipated," the contracting agency improperly applied the deviation to a solicitation that is the last in a series of procurements for the item.
2. Although regulations provide only that patent royalties must be evaluated and are silent on evaluation of technical data royalties, General Accounting Office believes technical data royalties must be evaluated the same as patent royalties since both types of royalty represent cost to government in case of award to other than owner of patent and data rights.

DECISION

Hughes Aircraft Company protests the elimination of royalty fees as an evaluation factor under request for proposals (RFP) No. DAAH01-87-R-0016 issued by the United States Army Missile Command (MICOM) for the production of Laser Designator Rangefinders (LDR) and Transceiver Assemblies^{1/} under a firm, fixed-price contract. We sustain the protest.

Hughes, the owner of patents and technical data necessary for this procurement, entered into a license agreement with the government in 1979 under which a specified royalty fee is paid to Hughes by the government if a contract requiring the use of the data or patents is awarded to a firm other than Hughes. The RFP acknowledged that the government would

^{1/} The LDR is the laser energy emission device within and the technical center of the Ground/Vehicular Laser Locator Designator (G/VLLD) System. The System uses laser energy to determine precise target bearing and range. The transceiver assembly is a component of the LDR.

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be obligated to pay a royalty to Hughes by virtue of this licensing agreement, but also advised that, notwithstanding this obligation, royalty fees would not be considered in the evaluation of offers. Hughes basically contends that under the Federal Acquisition Regulation (FAR), 48 C.F.R. §§ 27.204-3 (1986) and 52.227-7 (1985), MICOM is required to consider the patent royalty fees to be paid Hughes in evaluating other offerors' proposed costs for this procurement, and also must consider the technical data royalties.

Preliminarily, MICOM maintains that this protest is untimely because Hughes was furnished a draft RFP on November 21, 1986, which included the protested provision, but did not protest the matter within 10 days afterward, as MICOM suggests was required by our Bid Protest Regulations, 4 C.F.R. § 21.2(a)(2) (1986). MICOM's position is based on the wrong section of our regulations. Where, as here, a protest challenges an alleged solicitation impropriety, the protest is timely where filed prior to the closing date for receipt of initial proposals. 4 C.F.R. § 21.2(a)(1). The 10-day timeliness standard applies in all other cases. Thus, while it seems Hughes may have been able to file a protest at some earlier date, its protest nevertheless was timely since it was filed before the April 3, 1987, closing date.

As for the protest's merits with respect to patent royalties, when the government is obligated to pay a royalty on a patent involved in the prospective contract, FAR, 48 C.F.R. § 27.204-3, requires the inclusion in the solicitation of the FAR patent provision at 48 C.F.R. § 52.227-7. That provision advises a prospective offeror, who is not the owner or licensee of the patent, that its offer will be evaluated by adding to it an amount equal to the royalty. MICOM, however, defends the RFP on the basis that it had authority to waive the FAR requirement under a class deviation granted by the Defense Acquisition Regulatory (DAR) Council. The June 18, 1986, class deviation authorizes the Department of the Army to deviate (for a period of 3 years) from this FAR requirement for evaluating patent royalty fees,

" . . . in those rare situations when a pre-procurement patent license agreement exists, where significant future competitive (re)procurement is anticipated, and when deemed to be in the best interest of the government."

Hughes argues that since MICOM concedes this is the last in a series of procurements for this item, the deviation does not apply to this procurement, and that MICOM therefore must add royalty fees to other offerors' proposal costs in the

evaluation process. MICOM, in response, contends that the future procurement requirement was met, and that it properly applied the deviation to this procurement, because in September of 1986, when MICOM decided that the deviation applied, there was a future procurement anticipated, namely, the protested RFP, which was issued on February 18, 1987.

We agree with Hughes that MICOM improperly applied the deviation in this case. As we read the plain language of the deviation, in determining whether the condition regarding future procurement has been met, MICOM must consider whether a significant future competitive (re)procurement is anticipated, beyond the procurement to which the agency seeks to apply the deviation. Since the procurement in question here is the last in a series of procurements of this item, there is no future requirement for the item, and we therefore fail to see how the deviation condition has been met.

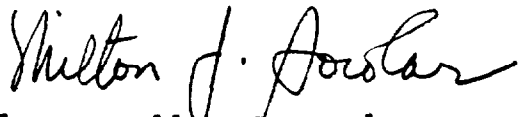
MICOM's position ignores the rationale underlying the deviation. The record shows that the Army sought, and the DAR Council approved, the deviation on the basis that where the three conditions are met, it may be in the government's interest to disregard royalty fees. It was reasoned that not adding the fees to the proposed costs of firms other than the patent holder would lead to increased competition and, therefore, lower the cost to the government on future procurements for the item. Where, as here, no future procurements for an item are anticipated, there is no reason to broaden competition for the future and, thus, no reason for ignoring the royalty fees during the evaluation process.

During the course of the protest, the issue has arisen whether MICOM is required to evaluate any technical data royalties payable to Hughes under the license agreement, since the cited FAR provisions and the class deviation apply by their terms only to patent data royalties. We find no reason to distinguish between patent and technical data royalty fees for evaluation purposes. Since both fees represent costs to the government, we believe that where, as here, the deviation does not apply, both royalty fees should be evaluated in the same manner, that is, by adding the amount of the royalty fees to the proposed costs of offerors other than the owner of the patent and technical data rights, here, Hughes. We do not interpret the FAR's silence on the evaluation of technical data royalties as precluding their evaluation.

We conclude that MICOM is required to evaluate the patent and technical data royalty fees to be paid Hughes under this contract. By letter of today to the Secretary of the Army,

we are recommending that the Army amend the RFP to provide for the evaluation of these royalty fees.

The protest is sustained.

A handwritten signature in cursive script, reading "Milton J. Fowler".

~~Acting~~ Comptroller General
of the United States